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E.O. 11652: GDS

TAGS: PGOV' PINT, UK

SUBJECT: THE LIB-LAB DEAL: TAKING STOCK

REFERENCE: (A) LONDON 4783; (B) LONDON 4938

INTRODUCTION AND SUMMARY: WE HAVE ALREADY REPORTED THE DETAILS OF THE AGREEMENT ENTERED INTO LAST WEEK BY THE LABOR GOVERNMENT AND THE LIBERAL PARTY (REFTELS). WE ASSESS HERE THE LIKELY IMPACT OF THAT DEAL ON THE THREE MAJOR PARTIES. IN BRIEF, THE ARRANGEMENT IS AN EXPERIMENT. IT BRINGS IMMEDIATE TANGIBLE BENEFIT TO BOTH CALLAGHAN'S LABOR GOVERNMENT AND STEEL'S LIBERAL PARTY. CONFIDENTIAL

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IT HAS EMBARRASSED AND HURT MRS. THATCHER'S CONSERVATIVES. ITS IMPACT ON THE LABOR PARTY, QUA PARTY, IS LESS CLEAR EVEN IN THE SHORT RUN. BARRING THE UNFORESEEN, IT WILL KEEP THE GOVERNMENT IN POWER AT LEAST THROUGH NEXT FALL, POSSIBLY INTO 1978 IF BOTH PARTNERS JUDGE TH GAINS HAVE OUTWEIGHED THE COSTS. WHETHER IT WORKS OR NOT, THE LIBERALS HAVE REACHED OUT IN A SENSIBLE GAMBLE

TOWARD THEIR GOAL OF A POLITICALLY RESHAPED BRITAIN. THE ODDS REMAIN, HOWEVER, THAT MAJOR STRUCTURAL CHANGE WILL REMAIN ELUSIVE. THE TORIES ARE LEFT WAITING, UNHAPPILY, IN THE WINGS. END INTRODUCTION AND SUMMARY

- 1. LABOR: FROM CALLAGHAN'S VIEWPOINT, THE LIB-LAB DEAL WAS A GOOD BARGAIN, AT LEAST FOR THE NEAR TERM. THE PRIME MINISTER IS NOW REASONABLY ASSURED OF ANOTHER 13 VOTES ON ALL CRITICAL ISSUES, HIS EFFECTIVE WORKING MAJORITY IN COMMONS THUS RESTORED. HE HAS OBTAINED AN ADTAKE EFFECT, AND THOUGH THE DURATION OF THE AGREEMENT IS LIMITED, IT IS RENEWABLE. MOREOVER, HIS SUCCESSFUL HANDLING OF THE NEGOTIATIONS WITH STEEL HAS ENHANCED HIS REPUTATION AS A POLITICAL OPERATOR, MORE THAN MAKING UP FOR ANY DAMAGE CAUSED BY HIS EARLIER MISJUDGMENT WHICH PROVOKED THE CRISIS.
- 2. WHILE CALLAGHAN GAVE AWAY LITTLE OF SUBSTANCE--HIS MINORITY POSITION HAD ALREADY MADE LEGISLATIVE COMPROMISE NECESSARY--HE IS ONLY TOO AWARE THAT IN POLITICS APPEARANCES CAN BEAS IMPORTANT AS SUBSTANCE, IF NOT MORE SO. AND BY GRANTING THE LIBERALS FORMAL CONSULTATIVE RIGHTS (AND THE PUBLICITY ATTENDANT ON THEIR NEW ROLE), HE GAVE STEEL SOMETHING THE LIBERALS BADLY WANTED. IT REMAINS TO BE SEEN WHETHER THEY GAIN ELECTORALLY AS A RESULT AND IF SO, AT WHOSE EXPENSE. ON THAT WILL RIDE THE ULTIMATE VERDICT AS TO WHICH MAN MADE THE BEST DEAL.
- 3. CALLAGHAN, HOWEVER, FACES MORE IMMEDIATE PROBLEMS. CONFIDENTIAL

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LABOR MPS AND ACTIVISTS ARE CONCERNED OF COURSE THAT THE DEAL MAY PROVE POLITICALLY DAMAGING, BUT THEIR OBJECTIONS ARE NOT ENTIRELY PRAGMATIC. THE DISQUIET AFFECTS ALL SECTORS OF THE PARTY, BUT IS MOST PRONOUNCED AMONG LEFT-WINGERS FOR WHOM DOCTRINE, IDEOLOGICAL CANT AND HISTORICAL PRECEDENT ARE OFTEN OF GREATER IMPORT THAN OBJECTIVE CIRCUMSTANCE. SOME MEMBERS OF LABOR'S LEFT-WING TRIBUNE GROUP, FOR EXAMPLE, HAVE ALREADY WRITTEN CALLAGHAN EXPRESSING THEIR UNEASE OVER THE AGREEMENT AND

THEM, THOUGH THEY ARE RESERVING JUDGMENT. ENERGY SECRETARY TONY BENN--THE LEADING LEFT-WING ASPIRANT FOR CALLAGHAN'S MANTLE--OPPOSED THE AGREEMENT IN CABINET AND HAS SINCE TAKEN CARE TO SEE THAT HIS DISSENTING VIEWS WERE AVAILABLE TO THE PRESS. IF THE RIGHT SCENARIO DEVELOPED, BENN MIGHT BE HAPPY TO HEAD A REVOLT AGAINST CALLAGHAN AND THE PACT.

4. IN OCTOBER CALLAGHAN WILL HAVE TO FACE A LABOR PARTY

CONFERENCE AND DEFEND HIS ACCORD WITH THE LIBERALS. IF INTERVENING BY-ELECTIONS AND OPINION POLLS INDICATE THAT THE AGREEMENT HAS HURT THE PARTY, HE COULD BE IN FOR A

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OF LAST YEAR. AND THE UNIONS, WHICH HAVE THUS FAR SUPPORTED THE DEAL, MIGHT NOT BE WILLING TO RISK SPLITTING THE PARTY JUST TO POSTPONE A GENERAL ELECTION FOR A FEW MORE MONTHS.

5. WE ARE SKEPTICAL ABOUT THE LONGER-TERM DURABILITY OF THE ACCORD. WHILE IT SEEMS SECURE ENOUGH FOR THE NEXT SIX OR SEVEN MONTHS, LIBERAL GAINS AT THE APPARENT EXPENSE OF LABOR, IMPROVED LABOR PERFORMANCE IN THE BY-ELECTIONS AND POLLS, PROGRESS ON DEVOLUTION OR PERHAPS EVEN A LIBERAL SLIDE IN POPULARITY COULD CREATE CIRCUMSTANCES

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THAT CHANGE THE CURRENT POLITICAL IMPERATIVES. WE CAN ONLY REMAIN DOUBTFUL THAT THE ACCORD PRESAGES A FUNDAMENTAL REALIGNMENT OF BRITISH POLITICS--AN END FERVENTLY DESIRED BY THE TIMES AND OTHER INFLUENTIAL ELEMENTS OF THE ESTABLISHMENT, AS WELL AS THE LIBERALS. THIS POSSIBILITY, OF COURSE, CANNOT BE DISMISSED, BUT IT SEEMS MORE LIKELY TO US THAT THE GOVERNMENT/LIBERAL PACT WILL PROVE TO HAVE BEEN THE PRODUCT OF UNUSUAL CIRCUMSTANCE RATHER THAN THE HARBINGER OF STRUCTURAL CHANGE.

- 6. LIBERALS: LIBERALS IN WESTMINSTER, AND ESPECIALLY DAVID STEEL, WERE MOST PLEASED WITH THE WAY THE RECENT PARLIAMENTARY CRISIS TURNED OUT. NOTHING IN LIBERAL HISTORY IN THE PAST 40 YEARS WOULD HAVE LED THEM TO BELIEVE THAT THEY WOULD FIND THEMSELVES SUDDENLY AT THE CENTER OF THIS COUNTRY'S POWER FULCRUM.
- 7. NONETHELESS, THEY ENTERED THE NEGOTIATIONS WITH CALLAGHAN WITH CONSIDERABLE TREPIDATION. THEIR LEADER IS YOUNG AND INEXPERIENCED, AND SOME IN THE PARTY FEARED STEEL WOULD BE MELTED BY CALLAGHAN'S GOLDEN GLOW. FURTHER, DISCIPLINE WITHIN THE LIBERAL PARTY IS NOT EXACTLY A GIVEN IN ANY SITUATION, AND ONE MORE MUFF BY THE LIBERALS BECAUSE OF THEIR MPS' WELL KNOWN RENEGADE TENDENCIES COULD HAVE PULLED THE CURTAINON THEIR ALLTOO-FRAGILE IMAGE IN THE COUNTRY.
- 8. IN THE EVENT, AND THROUGH FIVE DAYS OF PRIVATE NE-GOTIATION AND PUBLIC LIMELIGHT, THE LIBERALS DID NOT FALL APART. DESPITE WIDESPREAD RUMORS AT WESTMINS THEY WOULD DIVIDE AT THE MOMENT OF THE CONFIDENCE VOTE, LIBERAL MPS HELD TOGETHER IN A WAY UNKNOWN SINCE THE RUN-UP TO THE FEBRUARY 1974 GENERAL ELECTION. IN THE PROCESS, DAVID STEEL EMERGED AS THE UNQUESTIONED LEADER OF THE PARTY.

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9. ALTHOUGH ARGUMENT WILL GO ON AS TO HOW MUCH STEEL SQUEEZED OUT OF CALLAGHAN, LIBERAL DOUBTERS SHOULD BE ENCOURAGED BY REPORTS THAT TONY BENN ALMOST RESIGNED OVER THE DEAL. CERTAINLY THE AGREED FREE VOTE AT WESTMINSTER ON DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT AND ON PROPORTIONAL REPRESENTATION FOR SCOTTISH AND WELSH AS-

SEMBLIES WILL MEAN MORE VOTES FOR THE LIBERALS' DEEPLY HELD CAUSE OF PR. WHETHER SUCH FREE VOTES WILL CARRY THE HOUSE IS DOUBTFUL, BUT CROSSBENCH SUPPORT FOR PR WILL, AT A MINIMUM, ADVANCE THE LIBERALS ONE MORE STEP TOWARD THEIR ULTIMATE GOAL OF A PROPORTIONALLY REPRESENTED HOUSE OF COMMONS.

10. BUT THE DETAILS OF THE FIX ARE NOT CENTRAL TO STEEL'S STRATEGY. IN HIS VIEW, THE DEAL HAS PRODUCED A MASSIVE BOOST FOR LIBERAL PRESTIGE. THE LIBERALS ARE NOW NEAR THE HEART OF THE ACTION. THE PUBLIC'S MIND HAS BEEN CONCENTRATED ON LIBERALS' VIEWS AND ACTIONS, A SITUATION WHICH IN THE PAST HAS ONLY OCCURRED DURING GENERAL ELECTION CAMPAIGNS. BECAUSE THOSE CAMPAIGNS HAVE USUALLY SEEN A MARKED INCREASE IN LIBERAL SUPPORT, STEEL BELIEVES THAT PROLONGED PUBLIC ATTENTION FOR HIS PARTY CAN ONLY MEAN GREATER SUPPORT IN THE COUNTRY.

11. MOREOVER, THE LIBERALS NOW HAVE AN OPPORTUNITY TO SHOW THE ELECTORATE THAT THEY CAN ACT AS A MODERATING INFLUENCE WHICH WOULD PRECLUDE EXTREMIST SOLUTIONS OF BRITAIN'S PROBLEMS FROM THE LEFT OR THE RIGHT. THUS, STEEL HOPES THAT HE CAN CONVINCE THE VOTERS THAT A BALLOT CAST FOR THE LIBERALS IS NOT WASTED, THAT INDEED A LIBERAL VOTE WOULD HELP PREVENT THE SHARP POLITICAL AND IDEOLOGICAL SWINGS THAT HAVE BEDEVILED BRITAIN SINCE THE WAR.

12. IN THE SAME VEIN, STEEL WILL ARGUE THAT A SUCCESSFUL LAB/LIB ARRANGEMENT IS A DRESS REHEARSAL FOR THE KIND OF CONFIDENTIAL

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COALITION GOVERNMENT PROPORTIONAL REPRESENTATION WOULD PROVIDE. VISIONS OF HANS-DIETRICH GENSCHER DANCE IN HIS HEAD.

13. STEEL HAS BEEN SAYING THAT HIS DECISION IS RISKY. WE WOULD SAY NOT VERY. HE AVOIDED A GENERAL ELECTION IN WHICH AT LEAST FIVE OF THE LIBERALS' 13 SEATS WOULD PROBABLY HAVE BEEN SWEPT AWAY. HE STRUCK A DEAL THAT THE LIBERALS CAN REVOKE AT ANY MOMENT SHOULD IT SUIT THEIR PURPOSES. HE, ALMOST AS MUCH AS CALLAGHAN, CONTROLS FOR THE FORESEEABLE FUTURE THE DATE OF THE NEXT GENERAL CONFIDENTIAL

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ELECTION. AS STEEL SAYS, THIS PARTICULAR SHOT GUN HAS TWO BARRELS AND TWO TRIGGERS. AND MOST IMPORTANT, THE LIBERALS ARE ON TELEVISION ACTING, AND BEING SEEN, AS AN IMPORTANT AND RESPONSIBLE POLITICAL FORCE IN BRITAIN. IF THE ECONOMY GOES BADLY SOUR THIS YEAR, IF PHASE THREE OF THE INCOMES POLICY ABORTS, THE LIBERALS COULD WELL BE BURIED IN A GENERAL ELECTION WRAPPED IN LABOR'S RED FLAG. IN THAT SITUATION, THE TORIES WILL CERTAINLY BE EAGERLY STANDING AROUND WITH SHOVELS. BUT A LIBERAL INTERMENT COULD WELL HAVE OCCURRED, EVEN IN THE ABSENCE OF ANY LAB/LIB ACCORD. IF, HOWEVER, THE ARRANGEMENT PRODUCES POLITICAL STABILITY AND OVERLAPS THE BEGINNINGS OF ECONOMIC REVIVAL, STEEL WILL CLAIM THAT THE LIBERALS HAVE BROUGHT MODERATE GOVERNMENT IN THE SHORT RUN TO BRITAIN, AND HAVE BEGUN TO ACHIEVE THE BRITISH POLITICAL

REALIGNMENT WHICH MANY OBSERVERS HAVE ARGUED FOR IN THE PAST TWO DECADES. THROUGH A GLASS DARKLY, WE THINK HE MADE THE BEST POSSIBLE BET.

14. CONSERVATIVES: FOR THE CONSERVATIVES, THE VOTE ENDED UP EXPRESSING A LACK OF CONFIDENCE IN THEM, NOT IN THE GOVERNMENT. ALTHOUGH TORIES FULMINATED THAT THE UNHOLY ALLIANCE BETWEEN LABOR AND LIBERAL SUBORNED THE NATIONAL INTEREST, THEY HAVE YET TO CONVINCE THE SMALL PARTIES IN PARLIAMENT THAT THEY OFFER A BETTER ALTERNATIVE.

15. CONSERVATIVE BEHAVIOR DURING THE DEBATE DIMINISHED THE IMPRESSION OF A PARTY READY TO OFFER A SERIOUS OPTION FOR GOVERNING BRITAIN. SO CLOSE TO POWER, THEY SEEMED TO TURN GIDDY AT THE BRINK. THE ELECTRICITY AND CONFIDENCE OF TWO DAYS EARLIER EVAPORATED SUDDENLY; WHILE JIM WENT ABOUT FIXING IT, THE CONSERVATIVES REMAINED PASSIVE. ON THE NIGHT OF THE VOTE, MARGARET THATCHER APPEARED HARRIED AND INEPT AS SHE STRIDENTLY SPEWED CLICHES AT THE GOVERNMENT; AND THE MERRY TORY PRANKSTERS WHO CONFIDENTIAL

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OCCUPIED THE LIBERAL BENCHES MADE THE PARTY LOOK FRIVOLOUS.

16. FOR THE SHORT RUN, THE VOTE DID NOTHING TO FURTHER THE PROSPECTS OR REPUTATION OF THE TORIES. THE CONSERVATIVES ARE DISAPPOINTED AND BITTER, FEELING DISDAIN FOR THE LIBERALS AND CONTEMPT FOR LABOR. THE LIB/LAB DEAL IS ESSENTIALLY DISHONEST, THEY BELIEVE, AND CARRIES THE TWIST OF IRONY THAT CALLAGHAN HAS PULLED OFF EXACTLY WHAT HEATH FAILED IN THREE YEARS AGO. BUT FOR THE LONG HAUL, TORIES CAN ONLY BE ENCOURAGED. THEY SEE THIS GOVERNMENT NOW AS BALANCED BETWEEN TWO STOOLS. THE LEFT-WING OF THE LABOR PARTY WILL NOT BE ABLE TO ACCEPT A LIBERAL BRAKE ON SOCIALISM, THEY PREDICT, AND SOMETHING SOMEWHERE IN THIS STRETCHED POLITICAL FABRIC HAS GOT TO GIVE.

17. IN THE MEANTIME, THE TORIES WILL WAIT AS THEY MUST. THERE IS THE POSSIBILITY THAT MARGARET THATCHER WILL USE THE TIME BETTER TO PREPARE HERSELF AND HER PARTY FOR POWER. HER SHADOW COLLEAGUES ARE UNEVEN AND COULD USE SOME ADDED LUSTER. AND AS TED HEATH REMARKED PRIVATELY AND WITH SOME SELF-SATISFACTION, THE EXPERIENCE OF THE LAST WEEK MIGHT ALSO SERVE "TO CONCENTRATE THE MINDS" OF THE CONSERVATIVES ON SUCH ISSUES AS INCOMES POLICY, ULSTER, AND DEVOLUTION ON WHICH THE PARTY HAS SO FAR BEEN VAGUE AND FUMBLING. THE TORIES MUST USE THE REMAINDER OF

THIS SESSION TO PROVE THEY ARE A SERIOUS ALTERNATIVE AND
NOT AN ISOLATED COMPLAINT. THE POLITICAL REALITIES
DEMONSTRATED OVER THE LAST WEEK SHOULD HAVE SOBERED THE
PARTY AND ITS LEADERSHIP.

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